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5 SEPTEMBER 1955

BACKGROUND--PANAMA AND THE CANAL

The Suez crisis has brought the historical Panamanian attitude towards the Panama Canal into new prominence.

1. Panama has campaigned for many years to gain the right to participate in the operation of the Panama Canal and to get a greater share of the canal's profits. A new treaty with Panama was signed in 1955, and, at that time, an accompanying "memorandum of understanding" stated that the US Congress would consider new legislation regarding Canal Zone affairs.

Such legislation envisioned:

1. Establishing a single basic wage scale for all Canal Zone employees

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2. Giving Panamanian Canal Zone workers the benefits of Civil Service retirement.
3. Authorizing equality of opportunity to Panamanians for employment in non-sensitive Canal Zone jobs.
4. Transferring certain urban lands from the Canal Zone to Panama.
5. Exempting from the "Buy America Act" Panamanian products for sale to the Canal Zone.
6. Transferring to Panama the job of supplying non-US ships transiting the Canal.
7. Authorizing construction of a new bridge across the Canal.

The US Congress adjourned this summer without considering this legislation and the Panamanian Government was bitterly disappointed.

present, two local issues [REDACTED] are helping to keep the US prominent.

The first is a US interpretation of its commitment to establish a single basic wage-scale for all Canal Zone employees. Here the US holds that wages for a given job will continue to be set according to the area from which the bulk of employees in that position come.

The second issue concerns a US request for the establishment of radar-sites (in defense of the canal) with Panama. Here, the Panamanians hold that a new formal agreement is necessary, while the US holds that the 1936 treaty commits Panama to furnishing such sites.

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President Arias and President-elect De La Guardia (who will take office on 1 October) have agreed to make a major campaign on the canal during the next four years.

- a Under this agreement, the Panamanian Government will "harp constantly" on Panama's "sovereignty" over the canal, and plug away at the similarities between Suez and Panama.
- b The Government will also encourage "legislative study" of the "nationalization" or "internationalization" of the Panama Canal.
- c This Panamanian plan is probably inspired in part by the Government's wish to distract the public from the nation's serious domestic problems.

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I Another motive is probably the ruling coalition's hope that such an issue will strengthen its position, which at present is weakened by bitter internal divisions and widespread corruption.

II Nonetheless, the issue is "alive" enough to allow easy exploitation by the Government and is likely to provide Panama's anti-US and ultra-nationalist elements with considerable ammunition.

IV With regard to these prospects, the Office of National Estimates states:

A. Panama's economic demands will be partially met as soon as Congress passes the legislation necessary to implement the Memorandum of Understanding attached to the 1955 Treaty.

1. This legislation is apparently being delayed because Panama's refusal to grant the United States certain radar sites near the Canal.
2. These matters will probably be cleared up by negotiations during the coming year.
3. Panama, however, will almost certainly continue to agitate for joint operation of the Panama Canal Company and for additional economic benefits.
4. If it fails to obtain satisfaction, we believe Panama will probably attempt to contest US sovereignty over the Canal Zone by appealing either to the OAS or the UN, or both.